# Suncor Energy Inc. (SU)

*Updated February 8th, 2022 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $29 | **5 Year CAGR Estimate:** | 8.7% | **Market Cap:** | $41.6 B |
| **Fair Value Price:** | $36 | **5 Year Growth Estimate:** | 0.0% | **Ex-Dividend Date:** | 3/3/2022 |
| **% Fair Value:** | 80% | **5 Year Valuation Multiple Estimate:** | 4.7% | **Dividend Payment Date:** | 3/25/2022 |
| **Dividend Yield:** | 4.6% | **5 Year Price Target** | $36 | **Years Of Dividend Growth:** | 1 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | C | **Last Dividend Increase:** | 100% |

## Overview & Current Events

Suncor Energy is one of the largest integrated energy producers in Canada. The company is involved in all the aspects of the energy value chain, operating in three segments: Exploration & Production, Refining & Marketing, and Other. Suncor is headquartered in Calgary, Alberta, Canada and is cross listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the ticker 'SU' with a market capitalization of US$41.6 billion. Suncor reports financial results in Canadian dollars. However, the figures listed in this research report are in USD.

In early February, Suncor reported (2/2/22) financial results for the fourth quarter of fiscal 2021. Total upstream production decreased -3% over the prior year's quarter due to an asset sale. However, the company greatly benefited from the rally of the price of oil, which resulted from the tight supply from OPEC+ and the ongoing recovery from the pandemic. As a result, the company switched from an adjusted loss of -$0.05 per share to an adjusted profit of $0.67 per share. Due to the severe downturn in the energy market in 2020, Suncor cut its quarterly dividend by -55% in 2020 and thus it broke its 18-year dividend growth streak (in CAD). We also reiterate that the results of Suncor are very sensitive to commodity prices. On the bright side, oil prices have rallied close to 8-year highs lately thanks to pent-up demand and the reluctance of oil producers to boost their output due to their concerns over the secular shift from fossil fuels to clean energy sources. Thanks to the impressive rally of the price of oil, Suncor doubled its quarterly dividend last year and extended its share repurchase program for another 5% of the total share count.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.79 | $2.52 | $1.60 | -$1.04 | $0.20 | $2.06 | $1.56 | $2.18 | -$1.15 | $2.03 | ***$2.80*** | ***$2.80*** |
| **DPS** | $0.50 | $0.71 | $0.89 | $0.86 | $0.84 | $0.99 | $1.11 | $1.27 | $0.83 | $0.83 | ***$1.32*** | ***$1.68*** |
| **Shares[1]** | 1,523 | 1,478 | 1,444 | 1,446 | 1,668 | 1,641 | 1,585 | 1,536 | 1,525 | 1,453 | ***1,380*** | ***1,300*** |

Suncor was greatly affected by the pandemic in 2020, but the company has recovered strongly thanks to the rally of the oil price. Suncor expects to achieve growth thanks to the ramp-up of production at Fort Hills and Hebron and other growth projects, which enhance value within its integrated asset portfolio. The company also makes sustained efforts to reduce its operating expenses. Despite the strong results in 2017-2019, the losses posted in the last quarter of 2018 are a harsh reminder of the company's sensitivity to oil prices, particularly the discount of Canadian crude to WTI. We expect record earnings-per-share this year thanks to nearly 8-year high oil prices but we expect oil producers to boost their output eventually and thus send oil prices to more normal levels, around $50-$60. Given the record earnings expected this year, we expect flat earnings-per-share in five years from now.

## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 17.8 | 13.0 | 21.8 | --- | --- | 15.6 | 23.7 | 14.4 | --- | 10.7 | ***10.4*** | ***13.0*** |
| **Avg. Yld.** | 1.6% | 2.2% | 2.5% | 3.1% | 3.2% | 3.1% | 3.0% | 4.0% | 4.6% | 3.8% | ***4.6%*** | ***4.6%*** |

[1] In millions.

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Like many large energy companies, Suncor's valuation history has been very volatile, as the company has battled tremendous fluctuations in its earnings-per-share. As we have assumed strong earnings in 2027, we believe that a fair price-to-earnings ratio for this energy company in 2027 is 13. Suncor is currently trading at a price-to-earnings ratio of 10.4, which is lower than our assumed fair ratio. If the stock trades at our fair valuation level in five years, it will enjoy a 4.7% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 27.9% | 28.1% | 55.4% | --- | 43.0% | 47.8% | 71.3% | 58.0% | --- | 40.9% | ***47.1%*** | ***60.2%*** |

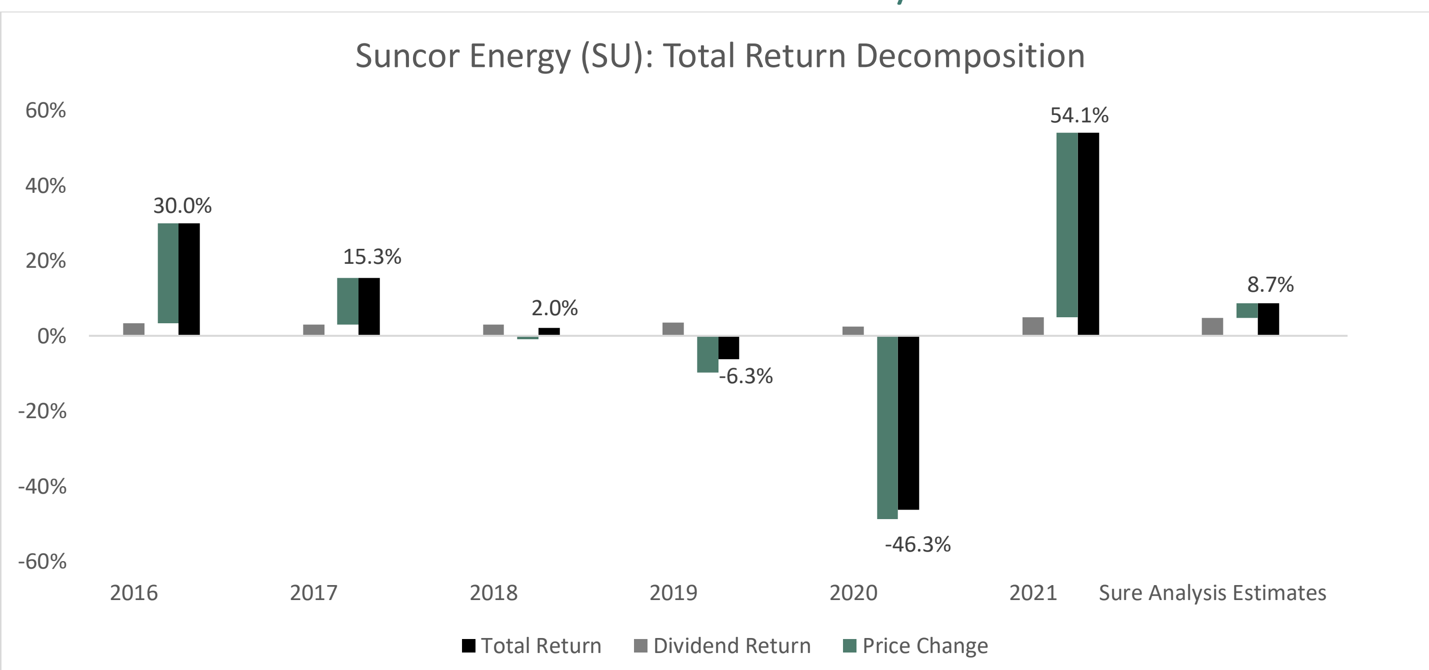
The integrated structure of Suncor Energy somewhat mitigates its exposure to the fluctuations of commodity prices. However, the company is still very sensitive to the underlying crude oil prices. In addition, as a commodity producer, Suncor lacks a meaningful competitive advantage. On the bright side, the company has a decent balance sheet, with only 56% of its assets financed through liabilities and a healthy interest coverage ratio.

Until recently, Suncor was a member of the S&P/TSX Canadian Dividend Aristocrats Index, which is comprised of companies included in the S&P Canada BMI that have increased their dividends for at least five consecutive years. Suncor's dividend growth streak extended well beyond this arbitrary five-year cutoff, but its high sensitivity to oil prices and its vulnerability to downturns forced the company to end its 18-year dividend growth streak (in CAD) in 2020 due to the pandemic. The high cyclicality of the stock and its volatile performance may render its dividend unsuitable for income-oriented investors.

## Final Thoughts & Recommendation

Suncor has rallied 60% in five months, but it remains attractive. We expect it to offer an 8.7% average annual return over the next five years and thus the stock is on the verge of earning a buy rating. Nevertheless, due to its high sensitivity to oil prices, the stock will be vulnerable whenever the next downturn of the energy sector shows up.

## Total Return Breakdown by Year

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*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 38,118 | 38,450 | 36,107 | 22,884 | 20,243 | 24,656 | 29,741 | 28,890 | 18,407 | 31,212 |
| **Gross Profit** | 14,618 | 16,905 | 14,668 | 7,927 | 8,165 | 11,753 | 14,408 | 11,460 | 4,496 | 15,546 |
| **Gross Margin** | 38.3% | 44.0% | 40.6% | 34.6% | 40.3% | 47.7% | 48.4% | 39.7% | 24.4% | 49.8% |
| **SG&A Exp.** | 3,503 | 3,111 | 3,196 | 2,781 | 3,087 | 2,940 | 3,211 | 3,666 | 7,409 | 9,066 |
| **Operating Profit** | 4,596 | 6,512 | 4,774 | (42) | 76 | 3,551 | 4,959 | 1,483 | (4,205) | 4,666 |
| **Op. Margin** | 12.1% | 16.9% | 13.2% | -0.2% | 0.4% | 14.4% | 16.7% | 5.1% | -22.8% | 5,299 |
| **Net Profit** | 2,741 | 3,798 | 2,445 | (1,563) | 328 | 3,440 | 2,541 | 2,184 | (3,224) | 17.0% |
| **Net Margin** | 7.2% | 9.9% | 6.8% | -6.8% | 1.6% | 14.0% | 8.5% | 7.6% | -17.5% | 3,285 |
| **Free Cash Flow** | 1,903 | 3,227 | 1,789 | 170 | (681) | 1,863 | 3,993 | 3,664 | (934) | 10.5% |
| **Income Tax** | 2,245 | 2,394 | 1,713 | (25) | (271) | 1,125 | 1,304 | (276) | (1,327) | 5,750 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 76,798 | 73,551 | 68,631 | 55,868 | 65,790 | 71,168 | 65,769 | 68,466 | 66,357 | 65,676 |
| **Cash & Equivalents** | 4,408 | 4,886 | 4,734 | 2,918 | 2,237 | 2,125 | 1,631 | 1,500 | 1,478 | 1,729 |
| **Acc. Receivable** | 5,228 | 4,934 | 3,683 | 1,982 | 2,360 | 2,609 | 2,354 | 3,102 | 2,476 | 3,556 |
| **Inventories** | 3,716 | 3,704 | 2,986 | 2,227 | 2,403 | 2,758 | 2,319 | 2,879 | 2,837 | 3,223 |
| **Goodwill & Int.** | 3,120 | 2,904 | 2,656 | 2,219 | 2,281 | 2,434 | 2,247 | 2,341 | 2,610 | 2,763 |
| **Total Liabilities** | 37,379 | 34,876 | 32,793 | 27,735 | 32,688 | 35,078 | 33,460 | 36,281 | 38,316 | 36,960 |
| **Accounts Payable** | 6,480 | 6,659 | 4,914 | 3,824 | 4,145 | 4,933 | 4,146 | 5,018 | 3,673 | 5,100 |
| **Long-Term Debt** | 11,081 | 9,771 | 10,592 | 10,114 | 12,928 | 11,396 | 12,738 | 11,513 | 14,736 | 12,160 |
| **Total Equity** | 39,419 | 38,675 | 35,838 | 28,132 | 33,102 | 36,090 | 32,308 | 32,185 | 28,041 | 28,716 |
| **LTD/E Ratio** | 0.28 | 0.25 | 0.30 | 0.36 | 0.39 | 0.32 | 0.39 | 0.36 | 0.53 | 0.42 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 3.7% | 5.1% | 3.4% | -2.5% | 0.5% | 5.0% | 3.7% | 3.3% | -4.8% | 5.0% |
| **Return on Equity** | 7.1% | 9.7% | 6.6% | -4.9% | 1.1% | 9.9% | 7.4% | 6.8% | -10.7% | 11.6% |
| **ROIC** | 5.5% | 7.7% | 5.2% | -3.7% | 0.8% | 7.4% | 5.5% | 4.9% | -7.5% | 7.9% |
| **Shares Out.** | 1,523 | 1,478 | 1,444 | 1,446 | 1,668 | 1,641 | 1,585 | 1,536 | 1,525 | 1,453 |
| **Revenue/Share** | 24.61 | 25.60 | 24.65 | 15.82 | 12.56 | 14.81 | 18.26 | 18.51 | 12.06 | 20.96 |
| **FCF/Share** | 1.23 | 2.15 | 1.22 | 0.12 | (0.42) | 1.12 | 2.45 | 2.35 | (0.61) | 3.86 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*